

**THE IMPACTS OF FASHION WHOLESALER AT PRATUNAM
AFTER AEC**



**A THEMATIC PAPER SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF MANAGEMENT
COLLEGE OF MANAGEMENT
MAHIDOL UNIVERSITY
2014**

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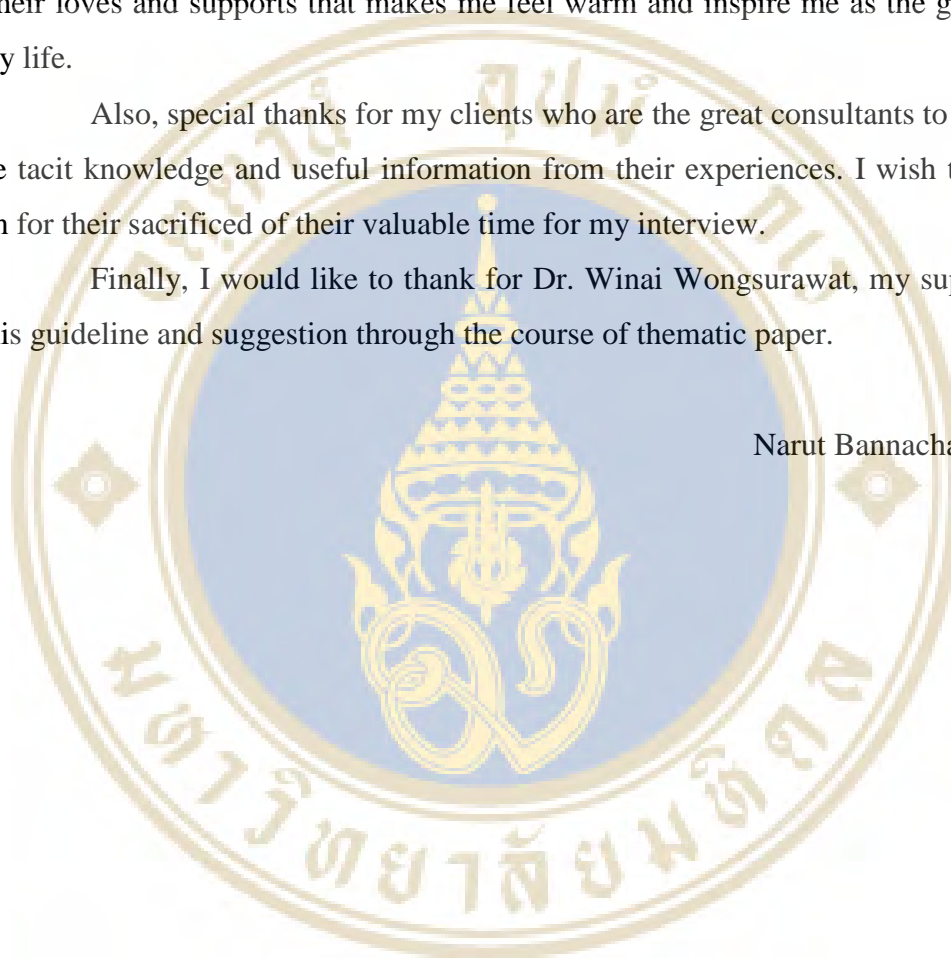
ACKNOWLEDGEMENT

Firstly, I would like to thank for my parents, my colleagues and my friends for their loves and supports that makes me feel warm and inspire me as the great gift of my life.

Also, special thanks for my clients who are the great consultants to provide some tacit knowledge and useful information from their experiences. I wish to thank again for their sacrificed of their valuable time for my interview.

Finally, I would like to thank for Dr. Winai Wongsurawat, my supervisor for his guideline and suggestion through the course of thematic paper.

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**THE SITUATION ANALYSIS AND THE IMPACT OF FASHION
WHOLESALE AT PRATUNAM AFTER AEC**

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WONGSURAWAT, Ph.D., ASST.PROF.BRIAN HUNT,
Ph.D.,ASST.PROF.VICHITA RACTHAM, Ph.D.**ABSTRACT**

Fashion wholesalers in Thailand are really well known since many years ago and today this business group is growing due to the increasing of population. This paper is talking about the current situation of wholesale market in Thailand which is Pratunam market. There are many components to support the growth of the market and also there are many constrain to harm this business growth as well. Moreover, AEC in 2015 is the great change that will affect to the market in term of bringing new opportunity and threat through this place. Analysis the current situation will explain the environment, and many factors that relevant to the business. Compare and contrast this market current situation with the possible changing after AEC can illustrate the impact of this business very well. The recommendations come from the aspects of threat and opportunity to support the Pratunam fashion wholesale market. The majority contents come from the idea of AEC by interviewing business owner in this place.

KEY WORDS: AEC, Fashion wholesaler, Free flow of goods, Tariff, Skilled labor.

22 pages

CONTENTS

	Page
ACKNOWLEDGEMENTS	ii
ABSTRACT	iii
LIST OF FIGURES	v
CHAPTER I INTRODUCTION	1
CHAPTER II LITERATUAL REVIEW	2
CHAPTER III METHODOLOGY	3
CHAPTER IV CURRENT SITUATION	5
CHAPTER V RESULT AND DISCUSSION	7
CHAPTER VI RECOMMEDATION	17
CHAPTER VII CONCLUSION	18
REFERENCES	19
APPENDICES	20
Appendix A AEC Questionnaires	21
BIOGRAPHY	23

LIST OF FIGURES

Figure	Page
2.1 Five Force Analysis	2
2.2 SWOT Analysis	3
4.1 Proportion of import and export of Thailand 1998 and 2009	6
5.1 Demographic Graph	7
5.2 SWOT ANALYSIS	14
5.2 Wages Overheads in Emerging Asia	16



CHAPTER I

INTRODUCTION

As we know, ASEAN Economic Community or AEC will start at 2015. The integration of Asian countries has the objective which creates a competitive market for increasing in bargaining power to compete with other regions. There are ten countries in AEC which are Brunei, Laos, Vietnam, Singapore, Philippines, Myanmar, Malaysia, Indonesia, Cambodia and Thailand. There are many aspects changing after AEC such as free flow of goods, labor, service, and capital investment (Michael, 2012). Moreover tariff among the countries will reduce as the trade opportunities. These are the big changes which is really important to all business components. Preparing business to be proper with the ACE is very important because AEC will come out with both threat and opportunities.

According to the importance of AEC, I would like to make this report concerning about the impact of fashion wholesaler in Pratunam. Being fabric sale is my career. I work as the sale manager of Fabric Company almost 2 years. Most of business owner have to purchase fabric as the raw material. Thus, I have quite good experience to familiar with this market quite well.

Normally shops in Pratunam has retention customer from many countries and many of them come from ASEAN such as Laos, Malaysia, Vietnam and also Cambodia. In my opinion, AEC has great influence to make the change of this market due to the opportunity of free flow of goods, labor and service. This prompted me to choose this topic as my thematic paper to evaluate the tendency of Pratunam market after AEC. I believe that this is a good example to analyze the business in any aspects about AEC readiness. What is the current situation at Pratunam market? What is the impact after AEC?

CHAPTER II

LITERATURE REVIEW

The Five Forces That Shape Industry Competition

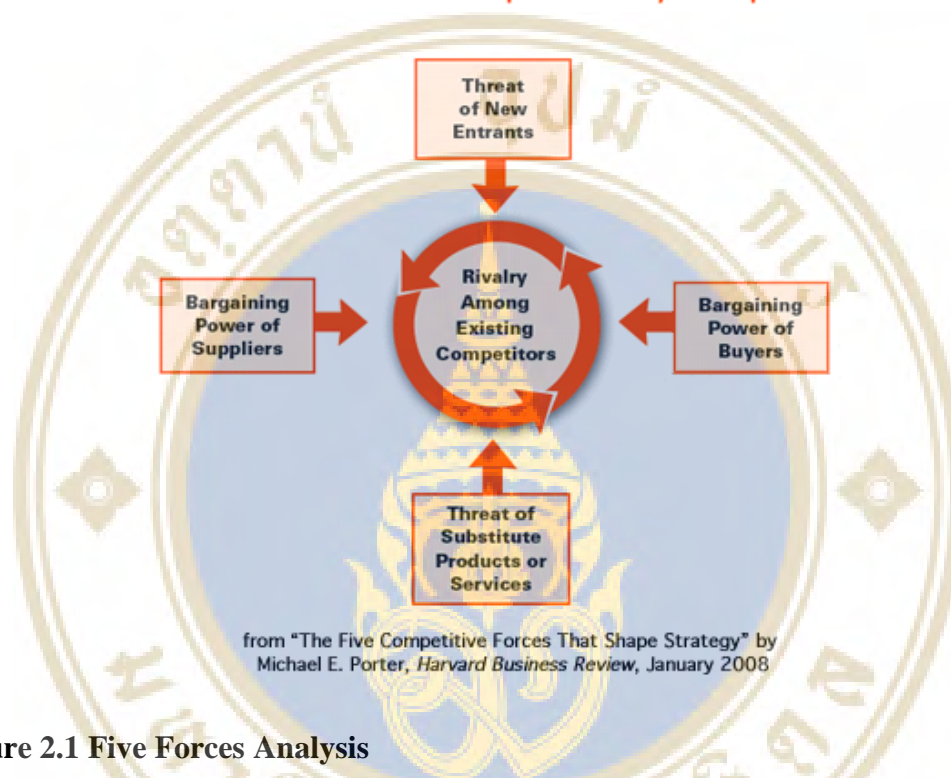


Figure 2.1 Five Forces Analysis

To evaluate the current situation and the phenomena after AEC Five-Force Analysis can apply to any industry. According to figure 2.1, the basic idea of this model is analyzing the attractiveness of an industry which is value in long term of investment or not. This model has five components which are the intensity of competition among existing competitors, bargaining power of customers, bargaining power of suppliers, substitute products and threat of potential entrance (Porter, 1980). To analyze Pratunam market by Five Force Model can illustrate the overall picture of current situation and business environment after AEC. Moreover, there is another model that I use in this paper to evaluate the internal and external component of business structure which is SWOT analysis. Figure 2.2 shows the concept of SWOT analysis. This method use to evaluate the strength, weakness, opportunity and threat

that involve in the market place. After AEC, there are many things change due to the concept of free flow of goods, labors and reduction of tariff.



Figure 2.2 SWOT Analyses

There are four elements of SWOT analysis which are strengths, weakness, opportunities, and threats. Strengths and weaknesses represent into the internal factor that makes the industry or market place have advantage or disadvantage over another. Opportunities and threats represent into the external factors that make the element of project advantage or cause the trouble for the industry or market place.

CHAPTER III

METHODOLOGY

Finding the information of statistic or chart from reliable website are very important. Therefore, I will select the information from official website that reliable such as bank or ministry website to filter out the wrong information. The other concept and useful business model will find from textbook such as strategic marketing, consumer behavior retailing and international trade from library. To find the deeper information about current situation and to evaluate situation after AEC, I will gather the information from business owner in Pratunam by interviewing. Fortunately, I have so many retention customers who are the business owner in Pratunam. Most of them have lot of experience in this place which can transfer some tacit knowledge into contextualize very well. Meeting with them in coffee shop after they finish work or interviewing them in lunch can be achievable. I believe that the interview can express the idea of them about AEC. The examples are their opinion such as awareness and opportunities that they will gain, what is the negative impact in term of cost and competitor entry. I will create the interview question to let them point out the opinion and vision of AEC.

People who I go to interview and do observation should be the currently business owner in Pratunam. I will use this set of question and interview them for depth information about situation and how they prepare for AEC. The question will divide into 4 parts which are demographic, customer segment, impact of AEC and contingency plan.

CHAPTER IV

CURRENT SITUATION

As we know, AEC brings both threat and opportunity through the community such as having free flowing of labor, capital, goods and raw material which is related to the business structure directly. There are many phenomena that change the structure of the currently business which will impact directly to business owner both positive and negative ways.

South East Asia market has potential growth very well. The trading among this region is rising sharply over the next decade. The example is about demographic in this region. For example, the population of Indonesia is about 242 million people. Also, the population of Vietnam also more than Thailand which is about 89 million people and the average of people in this country just 27 (hsbc, 2013). Moreover, there are many countries which opening the market and support the investor to invest in their countries after AEC such as Laos, Myanmar and Cambodian also be the big market that has high potential to return investment.

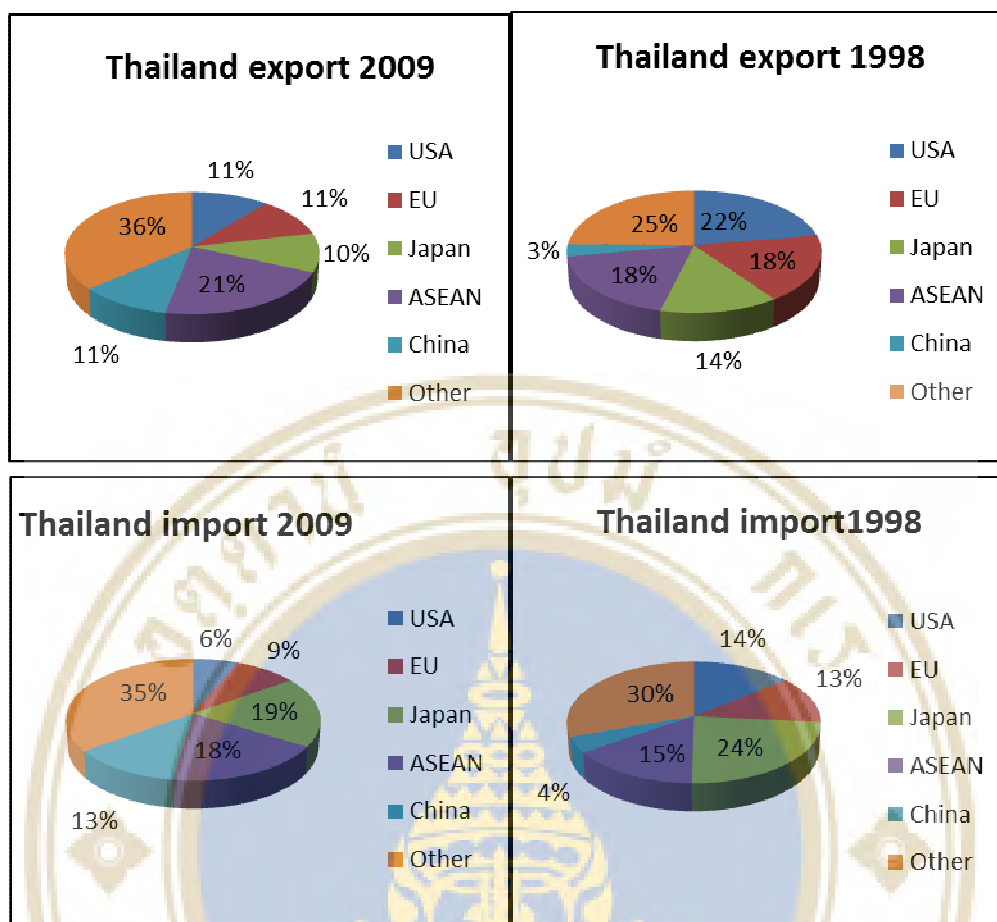


Figure 4.1 the proportion of import and export of Thailand in 1998 and 2009 (SCBME, 2012)

According to figure 4.1, ASEAN is the second biggest market which is less than Europe in 1998. Anyways, in 2009 ASEAN became the biggest market in export and almost the biggest market in import as well. The significant factor of this change comes from the reduction of tariff and it will reduce to 5 or 0% in 2015. This policy can bring both positive and negative in terms of flowing products across countries. The meaning of this pie chart can imply that after AEC the import and export of ASEAN countries will be the biggest parts, so this is the major market that can bring the opportunity and threat into all business components.

CHAPTER V

RESULT AND DISCUSSION

Section 1: Demographic

This questionnaire was taken place at Pratunam by shop owners on December 11th 2013. The time of interview is about 1 p.m. – 5 p.m., average per person is about 30 minutes. The questionnaire was done by 20 people. The result of the interview can illustrate by chart as well. I use the chart to illustrate the relationship between the level of education and age of business owners in Pratuanm.

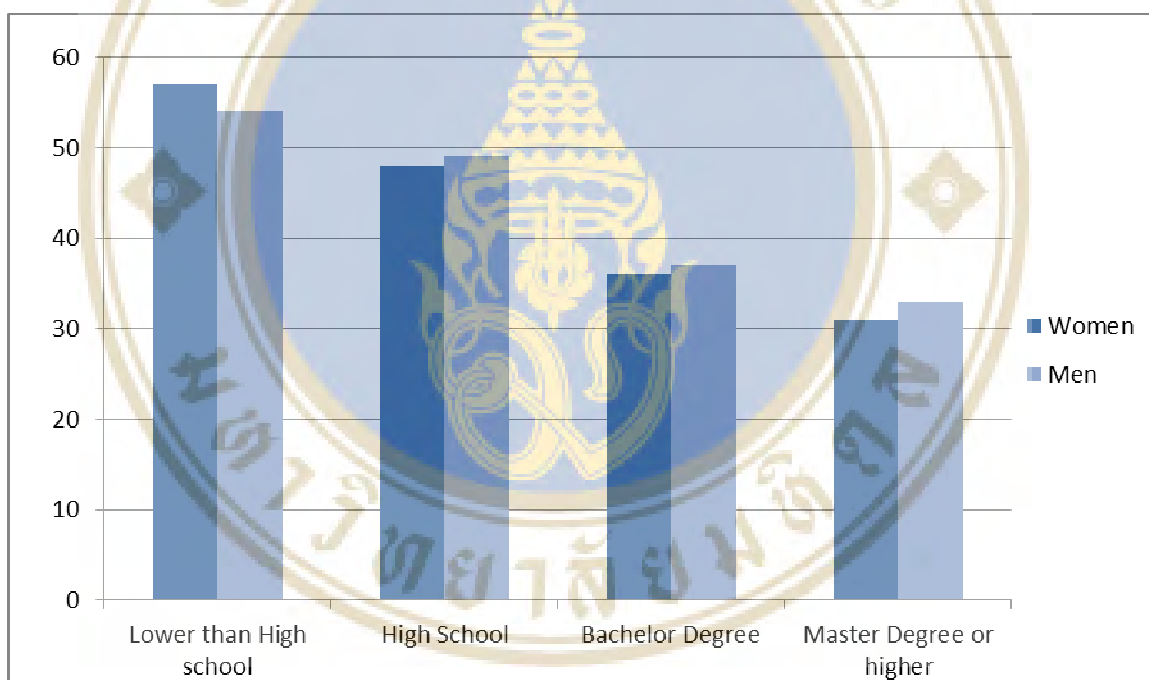


Figure 5.1 Demographic graph

The result can state in the figure 5.1 that the age has relationship with level of education. For example, people who have age around 25-45 years old mostly graduate at least bachelor degree, but also people who has age more than 50 years old mostly graduate less than bachelor degree. This result can related to the understanding of AEC because most people who has less than 45 years old has better knowledge

about AEC from reading news and receive the information through the Internet than people who has age more than 50 years old.

Nowadays, most new entries that come to open shop in Pratunam are younger people than the past because most people want to have their own business rather than working as employee unlike the past. Some of them also said that today has many online marketing tools which help them to expand the promotion and sale such as Line application and Facebook which can boost up the sale very well. They can attract the new customer by using this channel to their shops but the business owner who has age more than 50 years old they don't know so much about online tools which have less opportunity in both of receiving news and doing marketing online.

Section 2: Customer segmentation

According to the sample group interviewee, the results show that most clients are come from South East Asian and most of them are Malaysia, Philippine, Laos and Cambodian. The reasons that they come to purchase at Pratunam are these reasons.

After interview with the business owners, the result can conclude into three aspects that most clients who come from across countries to purchase at Pratunam because of these following reasons. The first reason that they come to Pratunam market because it has reasonable price compare to the quality. Even though, the price of production at Pratunam is higher than the production that comes from other countries such as China, client also prefers to purchase here because they trust in the quality. The next reason is about trust in the relationship of business owner in Pratunam. Thai business owner has a good friendly relationship. They can make new clients feel warm and trust to trade with them. Some business owner also offers the promotion and discount the price to make the retention customer which is not strict in the rules so much. This can enhance the clients to trade with them rather than change into others. The last one is about the place of Pratunam. As you known, Pratunam has convenience place for shopping. It located in the center of metropolitan which is Chidlom BTS and the building was set into the section such as menswear at the first floor, women swear at the second floor and kid swear at the third floor.

Moreover, they have information section that allows visitor to ask and look for the place of the shop due to the name or the kind of product that they seek for.

Section 3: AEC impacts

As you know AEC will bring both threat and opportunity to business community. Therefore, I divide into two dimensions which are threat and opportunity that Pratunam business owner sharing with me.

Threats:

- Increasing of competitors
- New pricing equilibrium
- Increasing in Rental cost
- Increasing of labor cost (skill worker)

For the threat, the first one is about increasing of competitors. There are not only new entrant who are Thai but also the foreigner as well. As you know, the location of Pratunam is really good for trading which attract a lot of new entry to this market. Moreover, AEC has the opportunity about free flow of labor, goods and reduction of tariff that support the foreigner to entry the market easier than the past. The foreigners who come to do business or open shop at Pratunam might has the comparative advantage in term of capital investment than exist shop owner at Pratunam. That can be the competitors who have high influence in this market place. The next one is about the price. Most of Pratunam market has familiar with the price that they currently sell. The price will adjust into the new equilibrium price due to the change in price of production cost which come from supplier and market price in Pratunam. Therefore, the price can be various at the initial of AEC. This can affect into the margin profit that they use to get from their clients. The next one is rental cost. The rental cost is essential to all business owners in Pratunam. The rental cost in Pratunam is quite high which has average about 120000-170000 baht per month at the good location place. The rental price will increase due to the more competitive in the market. As you know, if there are higher of people who want to enter their shop in Pratunam, the rental will rise due to the demand of this place increase. Therefore, if

they cannot sell well as same as nowadays or cannot compete with the new competitors, they won't afford the rising in the rental cost as well. The last one is rising of skill labor cost. As you know, the quality of the product is not only come from raw material but come from the skill worker who can sew the finish product neatly as well. After AEC the skill workers have more choices to work in other regions due to the payment that they receive so the business owner has to maintain these skill workers by offer higher wage or other benefit to keep them work.

Opportunities:

- Reduction in tariff
- More clients in the market
- Cheaper in labor cost

There is not only threats existing but also there are many opportunities come after open AEC in 2015 as well. First of all, reduction in tariff can make them have more chance to purchase new varieties of raw material with cheaper price. Importing raw material from other counties can be cheaper and easier than the today. This will enhance them to produce product more variety which benefit them to create the sell opportunity to satisfied customer need. Moreover, AEC will bring a lot of visitors who come from other regions to Thailand which naturally increase the number of clients into Pratunam market. Their sale will be stimulated and they might be wealthier from the increasing of visitors. The next opportunity is cheaper unskilled labor cost. Today, there are many shops have to hire unskilled Thai workers which are costly. Some of business owner solve this problem by hiring workers from neighbor countries such as Laos, Myanmar and Cambodian but they also afraid of regulation as well. Free flow of labor can make them more choice to reduce the cost with legal.

Section 4: Preparing for AEC and Contingency plan

According to the interview, there are many different idea of contingency plan among business owners. Some of them feel less awareness of AEC. People who are more than 50 years old they don't feel so much to prepare themselves. Some also say that they will know how to adjust by the time of AEC. In opposite way, people

who has age around 30-45 years old, they can provide the evidence and sharing significant idea about preparing themselves better.

Firstly, they suggest that comparing the price between producing by themselves with importing finish goods can evaluate which one is better for investment. They share the idea about production cost in Thailand that is quite costly. Even though they can control the flow of productivity, sometime there are many problems occur in the production process. As you know, fashion business has many processes since inbound to outbound as value chain such as design pattern, purchasing raw material, delivery fabric to manufacture, cutting and sewing, quality control, and transportation to the customer hand. They state that they have no time to control the overall cost during these processes and sometime they cannot produce following the high demand of clients in time. Moreover, reduction of tariff will make importing cheaper so they might select importing finish goods as the contingency plan to reduce stock loss and process of production. The next solution is making the different product to the market. They mention that this solution can make the brand awareness to the customer and the price won't be relying on the market price so much. They will try to source raw material to produce by using the opportunity of AEC that make the raw material import cheaper and various to serve customer satisfaction.

To analyze the current situation, we must understand the internal force and external force that effect to the Pratunam market, so I would like to use 5 forces analyze to evaluate the current situation.

The bargaining power of customers in Pratunam is high. In the past, customer had to purchase at least 6 pieces to get wholesaler price which is about 30% discount for each piece but today the regulation is change. Clients can purchase at least 3 pieces to get wholesaler prices which are changed a lot. Moreover, there are many new shops continually open and there are many fashion malls in Pratunam market. One of the great examples is Platunum fashion mall which has almost 2,500 shops in this place. Many shop sell similar product in this place, the switch cost of purchasing are quite low. The customers can compare the price to others easily and most of them will check the price from many shops before making decision. In my opinion, after AEC the market will become more competitive due to the flow of goods

from other countries. The variety of products will enter to the market a lot. Customers have more choice than currently and also the bargaining power of customer will rise.

The bargaining power of supplier is low. Many shops have to purchase fabric as raw material to produce. The production will be good or bad depended on the quality of fabric as well. Today, there is a lot of Fabric Company in Thailand such as in Pahurad market and Sampeng market. Moreover, some companies send sale person to sell the product as direct sale who present the fabric catalog to shop owner directly. They also has the service to delivery the fabric to their factories or their homes. The switch cost is really low because shop owner can select any companies they want through the sale or they can purchase the fabric at market place by themselves. Most of fabric is quite similar in term of color, quality and price. Moreover, the finish product can import from other countries as well. Many shop owners also mention that “they will purchase finish goods rather than order fabric to eliminate rising cost of skill labor such as sewers”. The bargaining power of supplier should be decreasing due to the flow of raw material.

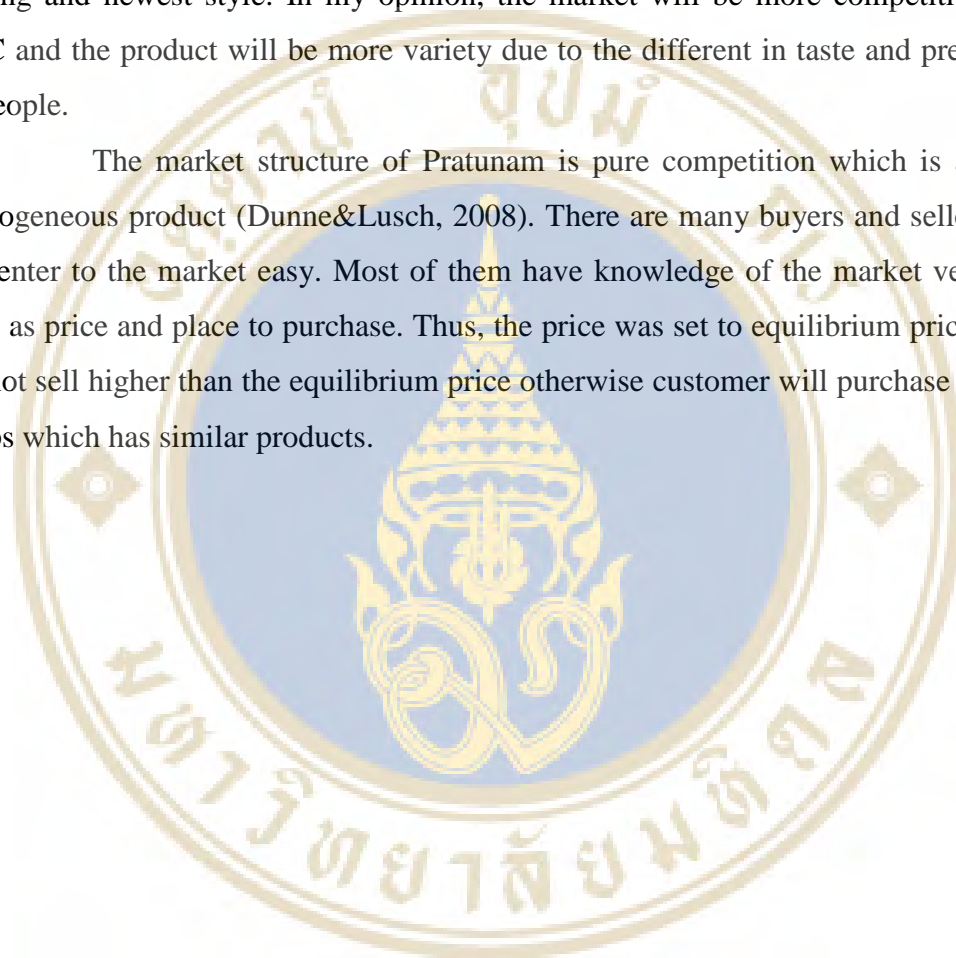
The threat of substitute products is high. The fashion market in Thailand is declining in term of economic crisis due to the political problem. Raising in wage cause the daily cost increasing. Many people save their money rather than spend in this time. People concern more about the price and the substitute product of Pratunam market can come from the cheaper product from the factory which distribute in other market. The big factory can product the product cheaper due to the economics of scale. After AEC, the threat of substitute still high because the market will be more competitive from the flowing of goods, labor and capital which are the main aspects of pricing strategy.

Thereat of new entrance is low. As you know, Pratunam is the biggest fashion wholesaler in Thailand. The reputation of this place is really high among the visitors. There are many shops that open more than 10 years. Some shop has lot of loyalty customers. Even though, the rental of this place starts from 80,000 baht to 300,000 baht per month. There is none of shop that empty in platinum fashion mall. After AEC, in my opinion, the threat of new entrance will rise due to the flowing of goods and labor. The shop owner in Pratunam might invest in other countries to eliminate the high rental cost and also the reduction of tariff will establish the new

place of fashion wholesaler market in other countries as well. The investors from others countries such as Vietnam or China can be the big competitors who have high investment and scale of production.

Rivalry among the firm is high. Platinum fashion mall which is one of market place in Pratunam has almost 2,000 shops in this place. The competitive between exist firm are really competitive. Most shops try to attract customer by pricing and newest style. In my opinion, the market will be more competitive after AEC and the product will be more variety due to the different in taste and preference of people.

The market structure of Pratunam is pure competition which is a lot of homogeneous product (Dunne&Lusch, 2008). There are many buyers and sellers who can enter to the market easy. Most of them have knowledge of the market very well such as price and place to purchase. Thus, the price was set to equilibrium price. They cannot sell higher than the equilibrium price otherwise customer will purchase at other shops which has similar products.



Strength	Weakness
<ol style="list-style-type: none"> 1. Well-known place in Asia 2. Quality product with reasonable price 3. Located in convenience place 	<ol style="list-style-type: none"> 1. Political crisis 2. Price sensitive 3. High Rental cost
Opportunity	Threat
<ol style="list-style-type: none"> 1. Reduction in Tax and tariff 2. Cheaper raw material and labor cost from flowing of goods and labor 3. More visitors from AEC 	<ol style="list-style-type: none"> 1. New competitors from neighbor countries. 2. Rising in skill labor cost 3. Rising in rental cost

Figure 5.2 SWOT ANALYSIS

Strength

As you know, Pratunam is the major fashion wholesaler market in Thailand for shopping which target on the low-middle income buyers. The reputation of Thai garment industry are really well-known in Asia, so it is not surprise to see a lot of foreigner who come to this place for buying as souvenir or doing business as retailer. The quality of product is acceptable since long time ago. The products are really accessible to the demand of customer very well. Most of the shop owner used to work in fashion field or work as the employee in the garment industry. Thus, they know about the demand of the market quite well. In this place, there are bundle of shop which located in the section that are really convenient for visitors. For example, every floor of Platinum Fashion Mall has names for each narrows by famous shopping districts around the world such as Orchard, Nathan, Ginza, Soho, Oxford and Camden. Moreover, there are many floors that divide in to the category of product. The example is the fourth floor dedicated to men's and women's clothing, leathers, shoes and fashion accessories (Bangkok, 2011). Moreover, there are helping centers that can support the customer to find the location of the shop by the names or product keywords. In addition, customer can log in to the official website of Platinum fashion mall to search the shop in Pratunam anytime (platinumfashion, 2011).

Weakness

Currently, Thailand has political crisis that lead economic dropping. There are many mobs often goes to the metropolitan for protesting. As you known Pratunam located at the center of metropolitan which is near Central World and Chidlom BTS. When the mobs come into this place, it is directly effect to the confidence of buyers in term of security and transportation as well. Moreover, the shop owners have to clearance or clear stock at the end of the month because they have to pay for the rental cost which is very high. There are about 150,000 per month.

Opportunity

Free flow of goods can bring the variety and lower price of raw material such as fabric that can purchase from other countries. There are many sources that distributes to Pratunam market. Therefore, the finish goods will be more variety and lower in the cost of production that lead to the lower price to sell. The business owner can catch up more demand by importing various product from many source due to the reduction of tariff to create different production to serve the customer satisfaction.

Threat

Neighbor countries such as Malaysia, Indonesia and Vietnam also have potential of fashion wholesaler export. Moreover, the political in those countries are more stable than in Thailand which is the significant thing to lead the economic growth. The potential of these countries can be the great competitor to the Pratunam market as well. The next thing is about the flowing in skill labor of Thai people who move into others places for getting higher salary. As you know, the quality of product is directly come from the skill of sewers.

Wage Overheads in Emerging Asia			
Country	Avg. minimum annual salary (worker, Intl. dollar)	Avg. mandatory welfare (% against salary)	Total labor cost (Intl. dollar)
Bangladesh	798	n/a	798
Cambodia	672	n/a	672
China	1,500	50	2,250
India	857	10	943
Indonesia	1,027	6	1,089
Laos	1,057	9.5	1,157
Malaysia	4,735	23	5,824
Mongolia	2,004	n/a	2,004
Myanmar	401	n/a	401
Nepal	1,889	n/a	1,889
Pakistan	984	7	1,052
Philippines	2,053	9.4	2,246
Sri Lanka	1,619	n/a	1,619
Thailand	2,293	6.9	2,451
Vietnam	1,002	15	1,152

Source: IMF World Economic Outlook Database, October 2010

Figure 5.3 Wage Overheads in Emerging Asia

Anyway, the price is still important rather than concern only quality because Pratunam market mostly is unknown brand. If they can hire unskilled worker from neighbor country to save the production cost, it is also essential to be cost leadership strategy. As you know, the price of labor cost is significant part of the total cost. Specially, SMEs as Pratunam business owner most of them has to face the wage rising crisis from government policy. The controllability of labor cost by downsizing can save cost about short term but for long term business owner has to find workers who can work more and less cost. The figure 4 represents the comparative wage in ASEAN. So you can see Thailand has quite high average salary about 130-180 us\$ when compare to countries in CLMV or Cambodia, Laos, Myanmar and Vietnam (Chris, 2010).

CHAPTER VI

RECOMMENDATION

In my opinion, there are three main recommendations that I would like to suggest potential business owners in order to adapt and to prepare for AEC. There is knowledge receiving and building community.

According to the interview, there are many business owners who do not understand the meaning of AEC such as people who are 50 years old. They have no idea about flowing of goods and labor. This is affect into them because they won't know the threat and opportunity that will occur to their business. For example, if the business owner understands in the benefit of AEC, they will try to reduce their cost by planning to import product from lower cost of raw material, or preparing the new product to serve the new visitors. Therefore, I would like to suggest that Pratunam business owner should learn more about AEC which they can find the information from the books or official website of AEC that already provide. Learning the awareness of AEC will make them understand the phenomena of changing. They will understand the new business environment that can bring both opportunity and threat into their business.

The next one is building the community. Building the community can make the union into this market place. I suggest that the market should have the center community to share some important information such as web board that can use to inform the information to this community. Nowadays there are only website that support the customers to look for their shop but there is none of website to support as community for sellers. The web board is the center of discussion and transfers some knowledge into others as knowledge tool as well.

CHAPTER VII

CONCLUSION

This paper analyses the situation of Pratunam market which is the biggest fashion wholesaler in Thailand. To analysis the situation analysis and to evaluate the situation after AEC, we conduct the analysis with five force model, SWOT analysis and interview of business owner in Pratunam.

These market places are really competitive market and there are many aspects which relate to AEC directly such as cost of production, size of market, competitors, and changing in bargaining power of supplier and customer. The business environment of Pratunam is really interesting and can reflect into the other market places as well. There is not only fashion wholesaler market which has similar effect but also in other kind of markets that has the similar business structure like SMEs. Therefore, I believe that this paper will be benefit as the example of business impact by AEC.

The limitation of this study would be evaluated the market after AEC. As you know, AEC is coming in 2015 which is not today. The business owner has to spend lot of time to discuss and share the idea which is quite difficult. Fortunately, some business owner are really feel aware of AEC so they can share the impact and explicit the information to us clearly and understandable.

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APPENDICES

APPENDICX A: AEC Questionnaires

Section 1: Demographic information

1. Age

- Under 30 years
- 30-49 years
- 50 years an over

2. Gender

- Male
- Female

3. What is your highest level of graduation?

- Secondary school
- Bachelor degree
- Master degree
- PHD

4. How long you open shop in Pratunam?

- Less than 1 year
- 1-2 years
- 3-4 years
- More than 5 years

Section 2: Market Segment Analysis (Ordering Number; 1 is the most)

1. Who are the biggest customers? The most profitable?

- Thai
- USA
- Japan, Korea, China
- South East Asian
- Europe

2. What element of product do customers value most?

- Price
- Quality
- Variety
- Unique style
- Agreement

3. What is the key customer motivation? What is really important to the customer?

Section 3: Impact of AEC

1. After AEC, do you think that the above answer still be the same or not and why?

2. After AEC, what environment threats, opportunities and trend exist?

3. After AEC, who are the existing and potential competitors? And Why?

4. What pressures do you feel in your jobs after AEC? Why?

5. Do you think that AEC will affect the business activity cost or not? Why?

Section 4: Contingency Plan

1. Do you have any plan of doing business or any contingency plan for AEC?
